



CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

**Interim Report
For The Six Months
Ended 30th June, 2006**

CORPORATE INFORMATION

Directors

Executive Directors:

Thomas Lau, Luen-hung (*Chairman*)
Joseph Lau, Luen-hung (*Chief Executive Officer*)

Non-executive Director:

Amy Lau, Yuk-wai

Independent Non-executive Directors:

Cheng, Kwee
Chan, Kwok-wai
Phillis Loh, Lai-ping

Audit Committee

Cheng, Kwee
Chan, Kwok-wai
Phillis Loh, Lai-ping

Remuneration Committee

Cheng, Kwee
Chan, Kwok-wai
Phillis Loh, Lai-ping

Company Secretary and Qualified Accountant

Lam, Kwong-wai

Solicitors

Sidley Austin
Sit, Fung, Kwong & Shum

Auditors

Deloitte Touche Tohmatsu

Principal Bankers and Financial Institutions

Bank of China (Hong Kong) Limited
Bank of East Asia, Limited
China Construction Bank Corporation
Citibank, N.A.
Hang Seng Bank Limited
Industrial & Commercial Bank of China
Liu Chong Hing Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

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Stock Code

127 (Ordinary Shares)
2516 (Convertible Bonds due 2010)

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RESULTS

The Board of Directors of Chinese Estates Holdings Limited (the “Company”), would like to announce the following unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2006 together with the comparative figure for 2005:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

		Six months ended 30th June,	
		2006	2005
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	2,226,166	429,707
Cost of sales		(1,799,254)	(85,626)
Gross profit		426,912	344,081
Other income	5	15,831	64,851
Investment income, net	6	364,377	178,567
Administrative expenses		(94,875)	(69,357)
Other expenses	7	(287)	(8,833)
Gain on disposals of property and other fixed assets		567	88,362
Gain on disposals of investment properties		–	10,450
Fair value changes on investment properties		5,079,574	1,611,930
Finance costs	9	(261,171)	(97,892)
Other gains and losses, net	10	71,362	(1,927)
Share of results of associates		345,301	201,285
Profit before tax	8	5,947,591	2,321,517
Income tax expense	11	(951,983)	(320,199)
Profit for the period		<u>4,995,608</u>	<u>2,001,318</u>
Attributable to:			
Equity holders of the parent		4,997,641	1,962,323
Minority interests		(2,033)	38,995
		<u>4,995,608</u>	<u>2,001,318</u>
Dividend	12	<u>266,767</u>	<u>223,324</u>
Earnings per share	13		
Basic		<u>231.6 cents</u>	<u>96.7 cents</u>
Diluted		<u>226.4 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET
At 30th June, 2006

	<i>Notes</i>	30th June, 2006 HK\$'000 (Unaudited)	31st December, 2005 HK\$'000 (Audited)
Non-current assets			
Investment properties	<i>14</i>	29,663,785	24,062,965
Property and other fixed assets		83,553	68,889
Properties under development	<i>15</i>	42,863	23,902
Prepaid lease payments		249,801	250,106
Property interests held for future development		–	–
Intangible assets		15,951	15,951
Goodwill		–	–
Interests in associates	<i>16</i>	1,259,176	692,870
Advances to associates	<i>17</i>	1,160,653	1,681,975
Available-for-sale investments	<i>18</i>	5,074,456	3,405,181
Equity-linked notes & bonds		1,606,723	2,799,507
Advance to an investee company		1,450	1,950
Loans receivable, due after one year		75,986	84,344
Deferred tax assets		64,659	66,586
Advance to a minority shareholder of a subsidiary		9,908	–
Pledged deposits		118,039	121,069
		<hr/> 39,427,003	<hr/> 33,275,295
Current assets			
Stock of properties		4,503,005	2,485,777
Investments held-for-trading		471,894	1,239,426
Equity-linked notes		–	628,983
Derivative financial instruments	<i>19</i>	50,229	59,940
Loans receivable, due within one year		6,625	6,698
Debtors, deposits and prepayments	<i>20</i>	134,503	183,247
Securities receivable and deposits		74,151	354,287
United States currency treasury bills		275,369	493,870
Tax recoverable		8,299	7,475
Pledged deposits		620,028	3,463
Time deposits, bank balances and cash		1,780,895	1,136,267
		<hr/> 7,924,998	<hr/> 6,599,433
Asset classified as held for sale		–	566,109
		<hr/> 7,924,998	<hr/> 7,165,542

CONDENSED CONSOLIDATED BALANCE SHEET (*cont'd*)
At 30th June, 2006

	<i>Notes</i>	30th June, 2006 HK\$'000 (Unaudited)	31st December, 2005 HK\$'000 (Audited)
Current liabilities			
Derivative financial instruments	19	243,661	152,089
Creditors and accruals	21	603,802	118,735
Cash and margin payable		60,729	11,320
Deposits and receipts in advance		252,228	224,243
Tax liabilities		117,205	71,684
Borrowings – due within one year	22	5,985,792	6,090,610
Provisions		16,017	24,444
		<u>7,279,434</u>	<u>6,693,125</u>
Net current assets		<u>645,564</u>	<u>472,417</u>
Total assets less current liabilities		<u>40,072,567</u>	<u>33,747,712</u>
Non-current liabilities			
Borrowings – due after one year	22	5,082,681	5,663,442
Convertible bonds	23	339,003	1,135,302
Amounts due to associates	24	14,317	14,879
Amounts due to minority shareholders	24	354,647	310,814
Deferred tax liabilities		3,900,336	2,920,578
		<u>9,690,984</u>	<u>10,045,015</u>
Total assets and liabilities		<u><u>30,381,583</u></u>	<u><u>23,702,697</u></u>
Capital and reserves			
Share capital	25	224,058	209,151
Reserves		29,751,552	23,092,369
Equity attributable to equity holders of the parent		<u>29,975,610</u>	23,301,520
Minority interests		405,973	401,177
Total equity		<u><u>30,381,583</u></u>	<u><u>23,702,697</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th June, 2006

Attributable to equity holders of the parent

	Share capital		Convertible		Statutory reserve	Other reserve	Special reserve	Capital		Total	Minority interests	Total
	HK\$'000	HK\$'000	bonds-equity reserve	Securities investments				redemption reserve	Retained profits			
At 1st January, 2005	203,021	1,575,192	-	317,326	-	-	2,499,685	96,597	11,997,818	16,689,639	6,024	16,695,663
Share of associates' reserve movements during the period	-	-	-	-	-	(79,613)	-	-	-	(79,613)	-	(79,613)
Losses on fair value changes of available-for-sale investments	-	-	-	(92,771)	-	-	-	-	-	(92,771)	-	(92,771)
Exchange adjustments	-	-	-	-	-	-	-	-	(1,300)	(1,300)	-	(1,300)
Net expense recognised directly in equity	-	-	-	(92,771)	-	(79,613)	-	-	(1,300)	(173,684)	-	(173,684)
Profit for the period	-	-	-	-	-	-	-	-	1,962,323	1,962,323	38,995	2,001,318
Total recognised income (expense) for the period	-	-	-	(92,771)	-	(79,613)	-	-	1,961,023	1,788,639	38,995	1,827,634
Effect on deemed disposals of subsidiaries	-	-	-	-	-	-	-	-	-	-	95,058	95,058
Final dividend paid	-	-	-	-	-	-	-	-	(223,324)	(223,324)	-	(223,324)
Equity component of convertible bonds	-	-	311,125	-	-	-	-	-	-	311,125	-	311,125
At 30th June, 2005	203,021	1,575,192	311,125	224,555	-	(79,613)	2,499,685	96,597	13,735,517	18,566,079	140,077	18,706,156
Share of associates' reserve movements during the period	-	-	-	7,355	-	1,238	-	-	-	8,593	-	8,593
Gains on fair value changes of available-for-sale investments	-	-	-	348,748	-	-	-	-	-	348,748	-	348,748
Exchange adjustments	-	-	-	-	-	-	-	-	10,357	10,357	-	10,357
Net income recognised directly in equity	-	-	-	356,103	-	1,238	-	-	10,357	367,698	-	367,698
Profit for the period	-	-	-	-	-	-	-	-	4,192,249	4,192,249	261,100	4,453,349
Total recognised income for the period	-	-	-	356,103	-	1,238	-	-	4,202,606	4,559,947	261,100	4,821,047
Issue of ordinary shares from conversion of convertible bonds	6,130	432,475	(76,184)	-	-	-	-	-	-	362,421	-	362,421
Interim dividend paid	-	-	-	-	-	-	-	-	(186,927)	(186,927)	-	(186,927)
At 31st December, 2005	209,151	2,007,667	234,941	580,658	-	(78,375)	2,499,685	96,597	17,751,196	23,301,520	401,177	23,702,697

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)
For the six months ended 30th June, 2006

	Attributable to equity holders of the parent											
	Share capital	Share premium	Convertible bonds-equity reserve	Securities investments reserve	Statutory reserve	Other reserve	Special reserve	Capital redemption reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December, 2005	209,151	2,007,667	234,941	580,658	-	(78,375)	2,499,685	96,597	17,751,196	23,301,520	401,177	23,702,697
Share of associates' reserve movements during the period	-	-	-	5,640	-	52,879	-	-	-	58,519	-	58,519
						(Note (1))						
Gains on fair value changes of available-for-sale investments (Note (2))	-	-	-	940,096	-	-	-	-	-	940,096	-	940,096
Exchange adjustments	-	-	-	-	-	-	-	-	1,413	1,413	-	1,413
Net income recognised directly in equity	-	-	-	945,736	-	52,879	-	-	1,413	1,000,028	-	1,000,028
Profit for the period	-	-	-	-	-	-	-	-	4,997,641	4,997,641	(2,033)	4,995,608
Total recognised income (expense) for the period	-	-	-	945,736	-	52,879	-	-	4,999,054	5,997,669	(2,033)	5,995,636
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(265)	(265)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	23	23
Deemed contribution from minority interests	-	-	-	-	-	-	-	-	-	-	11,033	11,033
Transfer to reserve	-	-	-	-	2	-	-	-	(2)	-	-	-
Issue of ordinary shares from conversion of convertible bonds	13,490	963,597	(166,270)	-	-	-	-	-	-	810,817	-	810,817
Cancellation on repurchase of own shares	(336)	(26,268)	-	-	-	-	-	336	-	(26,268)	-	(26,268)
Issue of shares in lieu of cash dividend	1,753	-	-	-	-	-	-	-	-	1,753	-	1,753
Premium on issue of shares upon scrip dividend	-	156,886	-	-	-	-	-	-	-	156,886	-	156,886
Final dividend paid	-	-	-	-	-	-	-	-	(266,767)	(266,767)	-	(266,767)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(3,962)	(3,962)
At 30th June, 2006	224,058	3,101,882	68,671	1,526,394	2	(25,496)	2,499,685	96,933	22,483,481	29,975,610	405,973	30,381,583

Notes:

- (1) The other reserve represented the share of an associate's reserve of the Group, which included the release of the negative reserve upon the disposals of the relevant properties in amount of HK\$38,599,000 and the accumulated effect of imputed interest reserve on amount due to the Group in amount of HK\$14,280,000.
- (2) The gains on fair value changes of available-for-sale investments included the gains on fair value changes of listed securities investment of approximately HK\$948.4 million.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30th June, 2006

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	3,703,219	(107,194)
Net cash used in investing activities	(2,055,078)	(4,188)
Net cash generated from issue of convertible bonds	–	1,771,915
Net cash (used in) generated from financing activities other than convertible bonds	(1,003,512)	1,023,567
Net increase in cash and cash equivalents	644,629	2,684,100
Cash and cash equivalents at 1st January,	1,136,267	1,196,018
Effect of foreign exchange rate changes	(1)	(8)
Cash and cash equivalents at 30th June,	<u>1,780,895</u>	<u>3,880,110</u>
Analysis of cash and cash equivalents		
Time deposits, bank balances and cash	<u>1,780,895</u>	<u>3,880,110</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2006

1. Basis of Preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. Principal Accounting Policies

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2005 except as described below.

In the current interim period, the Group has adopted, for the first time, a number of new standards, amendments and interpretations (hereafter collectively referred to as the “new HKFRSs”) issued by the HKICPA, which are effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006.

The adoption of these new HKFRSs has had no material effect on how the results of operations and financial position of the Group are prepared and presented.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group is in the process of assessing the potential impact of these new HKFRSs but not yet in a position to determine whether these new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Presentation of financial statements: Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies ²
HK(IFRIC)-INT 8	Scope of HKFRS 2 ³
HK(IFRIC)-INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st March, 2006.

³ Effective for annual periods beginning on or after 1st May, 2006.

⁴ Effective for annual periods beginning on or after 1st June, 2006.

3. Turnover

Turnover represents the aggregate of amounts received and receivable from the sales of investments held-for-trading, sales of properties held for sale, property rental income, commission from brokerage, settlement charges from brokerage and interest income from loan financing.

4. Segment Information

Business segments

The Group's primary format for reporting segment information is business segments.

For the six months ended 30th June, 2006

	Property development and trading <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Listed securities investment and treasury products <i>HK\$'000</i>	Unlisted securities investment, holding and brokerage <i>HK\$'000</i>	Other operations/ unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER							
Turnover from external customers	<u>10,700</u>	<u>330,356</u>	<u>3,850</u>	<u>1,870,187</u>	<u>11,073</u>	<u>-</u>	<u>2,226,166</u>
RESULT							
Segment result	<u>5,238</u>	<u>5,384,649</u>	<u>3,850</u>	<u>345,165</u>	<u>131,961</u>	<u>-</u>	<u>5,870,863</u>
Unallocated corporate expenses, net							(78,764)
Finance costs	-	-	-	(96,685)	-	(164,486)	(261,171)
Other gains and losses, net	-	70,366	-	-	-	996	71,362
Share of results of associates	299,146	45,221	257	-	-	677	345,301
Profit before tax							5,947,591
Income tax expense							(951,983)
Profit for the period							<u>4,995,608</u>

For the six months ended 30th June, 2005

	Property development and trading <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Listed securities investment and treasury products <i>HK\$'000</i>	Unlisted securities investment, holding and brokerage <i>HK\$'000</i>	Other operations/ unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER							
Turnover from external customers	<u>3,900</u>	<u>348,267</u>	<u>5,370</u>	<u>68,466</u>	<u>3,704</u>	<u>-</u>	<u>429,707</u>
RESULT							
Segment result	<u>51,764</u>	<u>1,956,990</u>	<u>5,370</u>	<u>79,440</u>	<u>101,624</u>	<u>-</u>	<u>2,195,188</u>
Unallocated corporate income, net							24,863
Finance costs	-	-	-	3,054	-	(100,946)	(97,892)
Other gains and losses, net							(1,927)
Share of results of associates	15,517	103,179	358	-	-	82,231	201,285
Profit before tax							2,321,517
Income tax expense							(320,199)
Profit for the period							<u>2,001,318</u>

Geographical segments

No further geographical segment information is presented as the activities of the Group carried out in Hong Kong is the only major geographical segment of the Group.

8. Profit Before Tax

	Six months ended 30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax has been arrived at after (charging) crediting:		
Staff costs:		
Staff costs, including Directors' emoluments	(40,775)	(36,964)
Retirement benefits scheme contributions, net of forfeited contributions of HK\$304,000 (2005: HK\$145,000)	<u>(1,582)</u>	<u>(1,755)</u>
	<u>(42,357)</u>	<u>(38,719)</u>
Depreciation and amortisation	<u>(7,135)</u>	<u>(8,402)</u>
Gain on disposal of investments held-for-trading included in gross profit:		
Increase in market value of investments held-for-trading	93,675	380
Realised exchange gain on translation of investments held-for-trading	<u>10,456</u>	<u>–</u>
	<u>104,131</u>	<u>380</u>
Gross rental income from investment properties	330,356	348,267
Less: Direct operating expenses from investment properties that generated rental income during the period	(19,885)	(10,629)
Direct operating expenses from investment properties that did not generated rental income during the period	<u>(5,396)</u>	<u>(3,028)</u>
	<u>305,075</u>	<u>334,610</u>
Share of tax of associates (included in share of results of associates)	<u>(61,474)</u>	<u>(47,616)</u>

9. Finance Costs

	Six months ended 30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans wholly repayable within five years	172,922	78,286
Bank loans wholly repayable over five years	903	484
Other loans wholly repayable within five years	<u>75,276</u>	<u>9,358</u>
	<u>249,101</u>	<u>88,128</u>
Imputed interest on:		
Amounts due to associates	482	242
Amounts due to minority shareholders	22,718	7,828
Convertible bonds	<u>14,519</u>	<u>9,792</u>
	<u>37,719</u>	<u>17,862</u>
Total interest	286,820	105,990
Exchange loss (gain) on translation of foreign currency loans	21,409	(12,412)
Other finance costs	<u>228</u>	<u>11,498</u>
	<u>308,457</u>	<u>105,076</u>
Less: Interest capitalised to stock of properties under development	(19,326)	(7,184)
Less: Interest capitalised to investment properties under development	<u>(27,960)</u>	<u>–</u>
	<u>261,171</u>	<u>97,892</u>

10. Other Gains and Losses, Net

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
Included in other gains and losses, net are:		
Net loss on deemed disposals of subsidiaries	–	(3,513)
Impairment loss recognised in respect of advance to an associate	–	(4,398)
Impairment loss reversed in respect of advance to associates	897	2,244
Gain on disposal of an associate	<u>70,366</u>	<u>–</u>

11. Income Tax Expense

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	47,826	17,977
Other than Hong Kong	<u>1,697</u>	<u>1,395</u>
	49,523	19,372
Deferred tax	<u>902,460</u>	<u>300,827</u>
	<u>951,983</u>	<u>320,199</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The major deferred tax liabilities recognised by the Group is deferred tax on fair value changes on investment properties of HK\$894,381,000 (2005: HK\$282,960,000) for the period.

12. Dividend

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
(a) Interim dividend for 2006 declared after the interim period end		
Interim dividend declared of HK12 cents per share with scrip dividend option (2005: HK9 cents per share)	<u>268,870</u>	<u>186,754</u>
(b) Final dividend for 2005 paid on 30th June, 2006 of HK12 cents (2004: HK11 cents) per share		
Cash	108,128	223,324
Share alternative under scrip dividend scheme	<u>158,639</u>	<u>n/a</u>
	<u>266,767</u>	<u>223,324</u>

13. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
Earnings:		
Earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the parent)	4,997,641	<u>1,962,323</u>
Effect of dilutive potential ordinary shares:		
Imputed interest on convertible bonds	<u>14,519</u>	
Earnings for the purposes of diluted earnings per share	<u>5,012,160</u>	
Number of shares:	Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,157,486,459	<u>2,030,214,000</u>
Effect of dilutive potential ordinary shares:		
Convertible bonds	<u>56,506,365</u>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,213,992,824</u>	

For the six months ended 30th June, 2005, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding convertible bonds as the conversion price was higher than the average market price of the Company.

14. Investment Properties

	<i>HK\$'000</i>
At 1st January, 2006	24,062,965
Additions	521,246
Increase in fair value recognised in the income statement	<u>5,079,574</u>
At 30th June, 2006	<u><u>29,663,785</u></u>

The investment properties of the Group were revalued at 30th June, 2006 by Directors on an open market value basis with reference to a review report of the Group's properties (the "Report") prepared by an independent professional properties surveyors. The Report was prepared on a similar basis as the valuation report of the Group as at 31st December, 2005. The net increase gave rise in fair value gain of approximately HK\$5,079,574,000 which has been credited to the income statement for the period.

On 27th February, 2006, a wholly owned subsidiary of G-Prop (Holdings) Limited, a 50.1% interest subsidiary of the Group, entered into a preliminary sale and purchase agreement to dispose of investment properties with carrying value of approximately HK\$68.1 million as at 31st December, 2005. The formal sale and purchase agreement was signed on 13th March, 2006. Completion of the sale and purchase of the investment properties is expected to take place in September 2006.

15. Properties Under Development

	<i>HK\$'000</i>
At 1st January, 2006	23,902
Additions	<u>18,961</u>
At 30th June, 2006	<u><u>42,863</u></u>

16. Interests in Associates

	30th June, 2006	31st December, 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investment in associates, unlisted	307,471	307,471
Share of post-acquisition profits, net of dividend received	951,705	<u>385,399</u>
	<u>1,259,176</u>	<u><u>692,870</u></u>

The investment properties of the Group's principal associates were revalued at 30th June, 2006 by Directors on an open market value basis with reference to a review report of the Group's properties prepared by an independent professional properties surveyors. The Report was prepared on a similar basis as the valuation report of the Group as at 31st December, 2005.

17. Advances to Associates

	30th June, 2006	31st December, 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest bearing advances to associates	148,461	199,299
Interest-free advances to associates	1,012,192	<u>1,482,676</u>
Total	<u>1,160,653</u>	<u><u>1,681,975</u></u>

The advances to associates are unsecured. An approximately HK\$620,589,000 was expected to be repayable in 2010 and the amount is therefore shown as non-current. For the remaining HK\$540,064,000, the Group will not demand repayment within one year from the balance sheet date and the amounts are therefore shown as non-current. The interest bearing advances to associates bear interest at the prevailing market rate. The Directors consider that the fair value of the interest-free advances as at the balance sheet date, determined based on the present values of the estimated future cash flows discounted using the prevailing market rates at the balance sheet date approximate their carrying amounts.

18. Available-for-sale Investments

	30th June, 2006	31st December, 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed investments:		
Equity securities listed in Hong Kong	4,357,059	1,871,937
Equity securities listed elsewhere	347,532	<u>1,155,070</u>
	4,704,591	3,027,007
Unlisted investments:		
Equity securities	369,865	<u>378,174</u>
Total	<u>5,074,456</u>	<u><u>3,405,181</u></u>

19. Derivative Financial Instruments

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
ASSETS		
Financial assets, held for trading		
Stock option	<u>50,229</u>	<u>59,940</u>
LIABILITIES		
Financial liabilities, held for trading		
Interest rate swap	144,323	86,364
Equity linked swaps	<u>99,338</u>	<u>65,725</u>
	<u>243,661</u>	<u>152,089</u>

20. Debtors, Deposits and Prepayments

Included in debtors, deposits and prepayments are trade receivables of approximately HK\$27,581,000 (at 31st December, 2005: HK\$21,990,000) comprising mainly rental receivables which are billed in advance and settlements are expected upon receipts of billings.

The following is an aged analysis of trade receivables at the balance sheet date:

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
0 – 30 days	8,912	5,768
31 – 60 days	1,805	2,185
61 – 90 days	770	866
Over 90 days	<u>16,094</u>	<u>13,171</u>
	<u>27,581</u>	<u>21,990</u>

21. Creditors and Accruals

Included in creditors and accruals are trade payables of approximately HK\$2,177,000 (at 31st December, 2005: HK\$7,337,000).

The following is an aged analysis of trade payables at the balance sheet date:

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
0 – 90 days	200	3,766
Over 90 days	<u>1,977</u>	<u>3,571</u>
	<u>2,177</u>	<u>7,337</u>

22. Borrowings

	30th June, 2006	31st December, 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans, secured	7,210,882	7,435,918
Other loans, secured	3,857,591	4,318,134
	11,068,473	11,754,052
<i>Less: Amounts due within one year and shown under current liabilities</i>	(5,985,792)	(6,090,610)
Amounts due after one year	5,082,681	5,663,442

23. Convertible Bonds

In April and May 2005, the Company has issued zero coupon Convertible Bonds (the “Bonds”) with maturity date on 2010 in an principal amount of HK\$1,750,000,000 and a further principal amount of HK\$60,000,000.

The Bonds are convertible on or after 20th May, 2005 up to and including 20th March, 2010 into fully paid ordinary shares with a par value of HK\$0.10 each of the Company at an initial price of HK\$7.37 per share, subject to adjustment. Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 100 per cent of their principal amount on 20th April, 2010.

The Bonds contain two components, liability and equity elements. Upon the application of HKAS 32, the Bonds were split between liability and equity elements. The equity element is presented in equity heading “Convertible bonds – equity reserve”. The effective interest rate of the liability component is 4.38%.

The movement of the liability component of the Bonds for the period is set out below:

	<i>HK\$'000</i>
Liability component at 1st January, 2006	1,135,302
Converted to ordinary share	(810,818)
Imputed interest expense for the period	14,519
Liability component at 30th June, 2006	<u>339,003</u>

The fair value of the liability component of the Bonds at 30th June, 2006, determined based on the present value of the estimated future cash flows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, was approximately its carrying amounts

24. Amounts due to Associates and Minority Shareholders

The amounts are unsecured. The associates and minority shareholders will not demand for repayment within one year from the balance sheet date and are therefore shown as non-current. The Directors consider that the fair value of the amounts as at the balance sheet date, determined based on the present values of the estimated future cash flows discounted using the prevailing market rates at the balance sheet date, approximate their carrying amounts.

25. Share Capital

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2005, 31st December, 2005 and 30th June, 2006	5,000,000,000	500,000
Issued and fully paid:		
At 1st January, 2005	2,030,214,000	203,021
Issue of ordinary shares from conversion of convertible bonds	61,292,780	6,130
At 31st December, 2005	2,091,506,780	209,151
Repurchased and cancelled	(3,360,000)	(336)
Issue of ordinary shares from conversion of convertible bonds	134,907,930	13,490
Issue of ordinary shares in lieu of cash dividend	17,529,207	1,753
At 30th June, 2006	2,240,583,917	224,058

26. Capital Commitments

At the balance sheet date, the Group had the following commitments:

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Authorised and contracted for:		
In connection with the acquisition of a company	–	1,596,349
Development expenditure of properties in Hong Kong	620,725	431,176
Acquisition of land	–	296,800
Acquisition of an investment property	–	388,591
Renovation of properties	281,731	67,622
Acquisition of other fixed assets	–	13,544
	<u>902,456</u>	<u>2,794,082</u>
Authorised but not contracted for:		
Development expenditure of properties in Hong Kong	1,617,774	234,690
Renovation of properties	–	526
	<u>1,617,774</u>	<u>235,216</u>

27. Contingent Liabilities and Contingent Gains

(a) Contingent liabilities

At the balance sheet date, the Group had the following contingent liabilities not provided for in the financial statements.

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by associates	776,033	1,365,175
Guarantee given to third parties in respect of those rent of disposed properties previously held by a subsidiary	13,795	19,467
Guarantee given to a bank in respect of banking facilities in lieu of the cash public utility deposit jointly utilised by subsidiaries	10,000	10,000
	<u>799,828</u>	<u>1,394,642</u>

(b) Contingent gains

Pursuant to a sale and purchase agreement dated 27th August, 2004 for the Connected Transactions, the Group is entitled to 80% profit sharing on the Properties when the Properties are subsequently sold by the discretionary trust within 24 months from the completion. Certain properties are not yet disposed of by the discretionary trust as at the period end.

28. Related Party Transactions

During the period, the Group entered into the following transactions with related parties:

	Six months ended 30th June, 2006 HK\$'000	2005 HK\$'000
Income received from associates:		
Office and retail rental	479	294
Building management fee	65	85
Interest income	3,468	3,796
Management fee	1,104	60
Administration fee	–	100
Accountancy fee	60	60
Rent and rates paid to associates	259	181
Income received from a private company partially owned by two Directors:		
Retail rental	–	20,018
Building management fee	–	1,788
Share of resale profit arising from properties resale by a related party in respect of properties previously acquired from the Group	–	50,160
Proceeds from disposals of properties and assets to private companies owned by a discretionary trust set up by a Director and a substantial shareholder	–	261,026
Amount paid to an associate for acquisition of an investment property	<u>388,591</u>	<u>–</u>

Office and retail rental and building management fee were determined on terms similar to those applicable to transactions with unrelated parties. Management fee, administration fee and accountancy fee were charged at the terms agreed by both parties. Interest income was charged at prevailing market rate based on outstanding balance during the period. Proceeds from disposals of properties and amount for acquisition of investment property were reference to open market value.

Details of the balances with related parties as at the balance sheet date are set out in notes 17 and 24.

INTERIM DIVIDEND

The Board of Directors of the Company (the “Board”) have declared an interim dividend of HK12 cents per share (period ended 30th June, 2005: HK9 cents) for the six months ended 30th June, 2006 and give shareholders the option of receiving part or all of the interim dividend in form of new shares (“scrip dividend”) in lieu of cash dividend. This scrip dividend proposal (the “Proposal”) will be conditional on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting a listing of and permission to deal in the shares to be issued pursuant to the Proposal.

For the purpose of determining the number of new shares to be allotted, the market value of new shares will be calculated as the average of the closing prices of the existing shares of the Company on the Stock Exchange for the five trading days prior to and including 31st August, 2006. Full details of the Proposal will be set out in a circular to shareholders together with a form of election on or about 12th September, 2006. Dividend warrants or new share certificates will be posted on or about 4th October, 2006.

The register of members will be closed from 29th August, 2006 to 1st September, 2006 both days inclusive and those persons whose names are registered as shareholders of the Company on 1st September, 2006 will be entitled to receive the interim dividend. In order to qualify for the interim dividend, all transfers must be lodged with the Company’s Branch Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 28th August, 2006.

FINANCIAL REVIEW

Results

Turnover for the six months ended 30th June, 2006 (the “Period”) amounted to HK\$2,226.2 million (six months ended 30th June, 2005: HK\$429.7 million), a 4.2 times increase over the same period last year. It was mainly due to the increase in turnover of securities investments.

For property leasing, the Period recorded a decrease of 5.1% in rental income as compared with the corresponding period in 2005, amounting HK\$330.4 million (2005: HK\$348.3 million). It was mainly due to the redevelopment of Tung Ying Building and Tung Sang Building. The Buildings have been vacant since December 2005 and January 2006 respectively for redevelopment. Furthermore, Laforet (formerly known as Nu Front) at Excelsior Plaza has been vacant since November 2005 for renovation.

Gross profit for the Period amounted to HK\$426.9 million, a 24.1% increase as compared with the same period last year.

In relation to property development, sale of Parc Palais in King’s Park (10% interest) has been satisfactory again. The sale was recognised in the Period generating a contribution of HK\$29.5 million (six months ended 30th June, 2005: HK\$34.8 million) which was included in investment income. Furthermore, the sale of Miami Crescent in Sheung Shui (50% interest) and Indihome in Tsuen Wan (50% interest) had generated a profit of HK\$86.6 million (six months ended 30th June, 2005: HK\$41.3 million) and HK\$244.0 million (six months ended 30th June, 2005: Nil) respectively, which were included in share of results of associates.

Results (*cont'd*)

In respect of the performance of listed securities investments and treasury products, the Group has recorded profit before and after finance costs of HK\$345.1 million (six months ended 30th June, 2005: HK\$79.5 million) and HK\$248.4 million (six months ended 30th June, 2005: HK\$82.5 million) respectively. The components in the income statement for the Period were gross profit of HK\$104.1 million (six months ended 30th June, 2005: HK\$0.4 million), loss on fair value changes of HK\$192.0 million (six months ended 30th June, 2005: HK\$25.2 million), realised gain on disposal of available-for-sale investments of HK\$194.6 million (six months ended 30th June, 2005: Nil), gains on other treasury products, dividend and interest income of HK\$238.4 million (six months ended 30th June, 2005: HK\$104.3 million). Finance costs HK\$96.7 million (six months ended 30th June, 2005: net gain of HK\$3.0 million) included interest expense and exchange loss in the sum of HK\$75.3 million (six months ended 30th June, 2005: HK\$9.4 million) and HK\$21.4 million (six months ended 30th June, 2005: exchange gain of HK\$12.4 million) respectively. In addition to profit recognised in the income statement, gains on fair value changes on available-for-sale investments of HK\$948.4 million was recognised to equity during the Period.

Other income recorded a decrease of 75.6% to HK\$15.8 million when compared with the same period last year. Administrative expenses increased by 36.8% to HK\$94.9 million as compared with the same period last year. Finance costs recorded an increase of 1.7 times to HK\$261.2 million as compared with the same period last year.

The share of results of associates for the Period increased by 71.5% to HK\$345.3 million as compared with the same period last year (six months ended 30th June, 2005: HK\$201.3 million), including fair value gains on investment properties and profit on disposals of Miami Crescent and Indihome.

Profit attributable to equity holders of the parent for the Period was HK\$4,997.6 million as compared to HK\$1,962.3 million for the same period last year. Earnings per share was HK231.6 cents (six months ended 30th June, 2005: HK96.7 cents).

If the fair value gains on investment properties and their respective deferred tax of HK\$4,204.5 million (2005: HK\$1,361.7 million) are excluded, profit attributable to equity holders of the parent for the Period will become HK\$793.1 million (2005: HK\$600.6 million) and earnings per share will become HK36.8 cents (2005: HK29.6 cents), an increase of 32.1% and 24.3% over 2005 respectively. Further the interim dividend payout ratio for the Period will become 32.6% (2005: 30.4%).

A final dividend of HK12 cents per share for the year ended 31st December, 2005 (year ended 31st December, 2004: HK11 cents) was paid during the Period.

Net Asset Value

As at 30th June, 2006, the Group's total net asset to equity holders of the parent amounted to approximately HK\$29,976 million (31st December, 2005: HK\$23,302 million), an increase of HK\$6,674 million or 28.6% when compared with 31st December, 2005. With the total number of ordinary shares in issue of 2,240,583,917 as at 30th June, 2006 (31st December, 2005: 2,091,506,780 shares), the net asset value per share to equity holders of the parent was HK\$13.38, an increase of 20.1% over 31st December, 2005 (HK\$11.14). The increase in net asset value per share was mainly due to the profit retained for the Period, including the fair value gains on investment properties.

Included in the total net asset is deferred tax liabilities of HK\$3,847 million on fair value gains on investment properties. If the deferred tax liabilities are excluded, the total net asset to equity holders of the parent will become HK\$33,823 million or HK\$15.09 per share.

Net Asset Value (*cont'd*)

During the Period, the Group had acquired the lands in Macau for development and Evergo Tower in Shanghai for investment, bought and sold listed securities investments. Other than the existing projects and those disclosed in the interim report, the Group did not have any future plans for material investment or capital assets.

Securities Investment

At 30th June, 2006, the listed securities investments and treasury products, which formed part of the Group's cash management activities, amounted to HK\$6,589.8 million (31st December, 2005: HK\$7,602.8 million), representing 13.9% (31st December, 2005: 18.8%) of the total assets at the period end, which mainly comprise blue chips and index shares in Hong Kong and overseas, debt securities and derivative financial instruments.

Risk Management

The Group has established adequate risk management procedures that enable it to identify, measure, monitor and control the various types of risk it faces. This is supplemented by active management involvement, effective internal controls and adequate internal audits in the best interests of the Group.

Equity

The number of issued ordinary shares as at 30th June, 2006 and 31st December, 2005 were 2,240,583,917 and 2,091,506,780 respectively.

Convertible Bonds

The face value of convertible bonds outstanding as at 30th June, 2006 was HK\$399.5 million, with adjusted conversion price of HK\$7.07 but before adjustment on 2006 interim dividend.

Debt and Gearing

As at 30th June, 2006, the Group's bank and other borrowings, and convertible bonds amounted to HK\$11,407 million (31st December, 2005: HK\$12,889 million). Cash, deposit at bank and United States currency treasury bills amounted to HK\$2,794 million (31st December, 2005: HK\$1,755 million) and net borrowings amounted to HK\$8,613 million (31st December, 2005: HK\$11,134 million).

Total debt to equity ratio was 37.5% (31st December, 2005: 54.4%) and net debt to equity ratio was 28.3% (31st December, 2005: 47.0%), which are expressed as a percentage of total borrowings, and net borrowings respectively, over the total equity of HK\$30,382 million (31st December, 2005: HK\$23,703 million).

The decrease of the total debt to equity ratio and the net debt to equity ratio were mainly due to an increase in total equity, which was mainly attributable from the profit retained for the Period and a decrease in convertible bonds.

Excluding outstanding convertible bonds, at the balance sheet date, the Group's bank and other borrowings were denominated in Hong Kong dollars (90.3%), US dollars (8.0%), Japanese Yen (1.6%) and Australian dollars (0.1%). Of the Group's total bank and other borrowings HK\$11,068 million, 54.1%, 22.7%, 23.1% and 0.1% were repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. The Group's bank and other borrowings carrying interest rates were calculated mainly with reference to HIBOR and LIBOR. No hedging for interest rate was subsisted at the end of the period.

Pledge of Assets

As at 30th June, 2006, the Group had pledged the following assets:

- (a) the Group's investment properties, property and other fixed assets, prepaid lease payments, stock of properties and time deposits with their respective book value of approximately HK\$28,267.9 million (31st December, 2005: HK\$23,263.2 million), HK\$49.9 million (31st December, 2005: HK\$50.6 million), HK\$240.1 million (31st December, 2005: HK\$240.4 million), HK\$2,131.3 million (31st December, 2005: HK\$2,138.0 million) and HK\$738.1 million (31st December, 2005: HK\$124.5 million) were pledged to the Group's bankers to secure general banking and loan facilities granted to the Group.
- (b) The Group's investments held-for-trading, available-for-sale investments, equity-linked notes and bonds, derivative financial instruments and United States currency treasury bills with an aggregate carrying amount of approximately HK\$6,865.1 million (31st December, 2005: 7,767.7 million) were pledged to the Group's financial institutions to secure margin and securities facilities granted to the Group in respect of securities transactions and utilised by the Group as borrowings due within one year of approximately HK\$3,857.6 million (31st December, 2005: HK\$4,318.1 million).
- (c) Interests in certain subsidiaries of the Company have been pledged as part of the security to secure certain bank borrowings granted to the Group.
- (d) The Group has subordinated and assigned its advance to associates of approximately HK\$891.6 million (31st December, 2005: HK\$858.8 million) to financial institutions to secure banking facilities granted to associates.

Financial and Interest Income/Expenses

Interest income was included in turnover and investment income. Finance costs included interest expenses on bank and other loans, arrangement, facility and commitment fee expenses. Interest income for the Period was HK\$259.7 million, representing an increase of 3 times from that of 30th June, 2005 (HK\$65.2 million). Interest capitalised for the Period was HK\$47.3 million as compared to HK\$7.2 million for the same period last year. Excluding imputed interest, interest expenses for the Period amounted to HK\$201.8 million, representing 1.5 times increase over the interest expenses of HK\$80.9 million recorded for the same period last year. An exchange loss on translation of foreign currency loans of HK\$21.4 million (six months ended 30th June, 2005: gain of HK\$12.4 million) was recorded during the Period. The increase in interest expenses was mainly due to increase in interest rate and increase in borrowings during the Period. The average interest rate over the period under review was 4.73% (2005: 2.37%), which was expressed as a percentage of total annualised interest expenses over the average total borrowing.

Remuneration Policies and Share Option Scheme

During the period under review, the Group employed a total of 276 (six months ended 30th June, 2005: 243) staff (excluding about a total of 243 (six months ended 30th June, 2005: 220) estate management staff employed under the Group's estate management company, Perfect World Company Limited).

Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration packages comprised salary and year-end discretionary bonus based on market conditions and individual performance. The Executive Directors continued to review employees' contributions and to provide them with necessary incentives and flexibility for their better commitment and performance. No share option scheme was adopted for the Period.

PRC and Macau

Profit contribution from the Group's investment in the PRC (including operating profit, fair value changes on investment properties and share of results of associates) for the Period amounted to HK\$104.0 million representing 2.1% of the profit attributable to the equity holders of the parent (six months ended 30th June, 2005: 76.5 million). The Group's China investment as at 30th June, 2006 amounted to HK\$910.4 million (31st December, 2005: HK\$1,170.5 million) representing approximately 1.9% of the Group's total asset value. Further the Group's Macau investment as at 30th June, 2006 amounted to HK\$1,609 million representing approximately 3.4% of the Group's total asset value.

Listed Subsidiaries

At the period end date, the Group owned 61.96% interest in Chi Cheung Investment Company, Limited and 50.1% interest in G-Prop (Holdings) Limited.

BUSINESS REVIEW

Hong Kong Property Investment

Rental from property investment continued to be one of the main sources of the Group's income. The overall occupancy rate of the Group's retail portfolio remained at a high level of 92% (excluding Excelsior Plaza) during the first half of 2006. Such sustainable high occupancy rate is attributable to the prime locations of the majority of the Group's retail properties.

Owing to the redevelopment of Tung Ying Building and Tung Sang Building, the renovation of Excelsior Plaza, and the sale of a substantial part of Chic Castle, the gross rental income of the Group was gently reduced by 5.1% to HK\$330.4 million for the six months ended 30th June, 2006, as compared with the corresponding period last year. Such a temporary reduction is believed to be worthwhile as the redevelopment and renovation will maximise the future rental value of the Group's retail properties. If the redeveloped and renovated properties are excluded, gross rental income has increased by 13.8% over the last period, and the respective increases in retail and non-retail portion have been 14.1% and 12.9%.

The renovation of Excelsior Plaza, renamed as Laforet, commenced in November 2005, was completed in July and Laforet was reopened on 5th August, 2006. The enhancement achieved includes reallocation of escalator and change in internal layout to improve pedestrian flow, the installation of two LED screens and the refurbishment of the covered walkway. The revamped Laforet, consisting of small shops with area ranging from 150 to 1,000 square feet, specially targets at the young and trendy customers. As at today, its occupancy rate has reached 88.8% and when fully leased out, the rental is expected to increase by 140% as compared with the previous lease.

The shops on basement, ground floor and 1st floor of Windsor House have been gradually closed for renovation, which is expected to be completed in the first quarter of 2007. The revamped retail space will include shops with area ranging from 180 to 3,000 square feet, five food and beverage outlets located on basement, 1st floor and 4th floor and a brand new facade.

vim@silvercord, the basement of Silvercord in Tsim Sha Tsui, has been opened since December 2005. As at 30th June, 2006, its occupancy rate reached 79% and there is a 6.5 times increase in rental as compared with the previous lease. The conversion of the existing bubble lifts to shops in two phases is ongoing. The first phase is expected to be completed in the fourth quarter of 2006. The conversion of the cinema to shops will commence in the fourth quarter of 2006.

Hong Kong Property Investment (*cont'd*)

The occupancy rate for the Group's office properties maintained at a high level throughout the first half of 2006. As at 30th June, 2006, the occupancy rates of Windsor House, MassMutual Tower and Harcourt House were 96%, 98% and 98% respectively, bringing the occupancy rate of the overall office portfolio to 97%.

In June 2005, the Group announced the redevelopment of Tung Ying Building in Tsim Sha Tsui. The building was vacant in December 2005 and demolition work has started early this year. Completion of the redevelopment is expected to be in early 2010.

Tung Sang Building has commenced its demolition work and will be redeveloped as a brand new residential/commercial composite building with completion date in mid 2008.

Hong Kong Property Development

In general, the Group's development projects have been making good progress and sales have been achieving pleasing results.

The residential development Indihome Tsuen Wan (50% interest) was completed in January 2006, 583 presold units had been handed over to the purchasers. A further 259 units were sold up to 30th June, 2006.

During the six months ended 30th June, 2006, various houses and units of Miami Crescent Sheung Shui (50% interest), Mount Beacon Kowloon Tong (33 $\frac{1}{3}$ % interest) and Parc Palais Homantin (10% interest) were sold.

For the Tai Yuen Street Wanchai redevelopment project undertaken with the Urban Renewal Authority (87.5% interest), the construction of Phase I of the project was completed. Phase I comprises of 3 residential tower blocks having 652 units with flat size ranging from gross floor area of approximately 605 square feet to 879 square feet. As the pre-sale consent application is being processed, we expect that the pre-sale will be launched soon.

The Group has also formed two other joint venture projects with Urban Renewal Authority, one located at the junction of Reclamation Street and Arran Street in Mongkok, foundation work has been completed in the first quarter of 2006 and the whole project is expected to be completed in mid 2007; and the other located at Larch Street/Bedford Road, foundation work has been started and the project is expected to be completed around end of 2008.

The certificate of compliance of Mount Beacon Kowloon Tong was issued in July 2006, and approximately two third of the units were presold. The presold units are expected to be completed in the forthcoming weeks.

Foundation work of development project located at Hoi Ting Road and junction of Hoi Wang Road and Hoi Ting Road, West Kowloon Reclamation Area (25% interest) has commenced. Residential and retail properties with a total gross floor area of 1,095,980 square feet will be developed.

Macau Property Development

In December 2005, the Group acquired 5 parcels of adjoining land in Taipa, Macau (70.01% interest). The acquisition was completed in early 2006. The total site area is approximately 848,000 square feet and will be developed by four phases. Building plan has been submitted for approval and foundation work of phase I will commence soon. The phase I of this project is expected to be launched in late 2006.

PRC Property Investment

Evergo Tower (100% interest), located at Huaihai Road Central, one of the most prestigious commercial districts in Shanghai, is a 23-storey office/shopping complex including a 2-storey basement and has a total gross floor area of 267,077 square feet for leasing purpose. The averaged occupancy rates of the office and retail spaces of the tower are 87% and 100% respectively for the six months ended 30th June, 2006.

Hilton Beijing (50% interest) maintained an average occupancy rate of 78% and a gross operating profit of HK\$30.9 million was reported for the six months ended 30th June, 2006. Hilton Beijing is expanding by converting the adjacent auditorium into an executive tower. Demolition of the auditorium commenced in April 2006 and will be completed in September 2006. Construction work of the executive tower will follow immediately and is expected to be completed in early 2008.

Oriental Place (50% interest), a 10-storey office building next to Hilton Beijing, was 89% let out as of June 2006.

The occupancy rate of the 79 retail outlets with the total area of approximately 29,000 square feet in Lowu Commercial Plaza, Shenzhen (100% interest) in June 2006 was 90%.

The central government has recently released a series of property measures, mainly in restricting flat size of residential projects, limiting number of units to be bought by non-citizens, imposing capital gain tax on resold residential units and tightening credit policy. The Group believes that these measures try to curb speculation in the overheated property markets in major cities and to create a transparent and balanced market structure, which will ultimately benefit the healthy growth in a long term perspective.

CORPORATE INFORMATION

In April and May 2005, the Company issued zero coupon Convertible Bonds in a principal amount of HK\$1,810,000,000, due 2010 with a call and put option in May 2007. During the six months ended 30th June, 2006, Convertible Bonds with a total value of HK\$967,290,000 was converted into 134,907,930 shares at the conversion price of HK\$7.17. The face value of Convertible Bonds outstanding as at 30th June, 2006 was HK\$399,500,000, convertible to 56,506,364 shares at the adjusted conversion price of HK\$7.07.

The total number of issued shares of the Company at 30th June, 2006 is 2,240,583,917.

In February 2006, the Company announced that the Company has been pursuing the possibility of disposing of certain commercial properties of the Group in Hong Kong to a real estate investment trust (“REIT”) and the listing of the units of the REIT on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Spin-off”) to strengthen the financial position of the Group and to enhance shareholders’ value.

However, shareholders and potential investors should note that the timing of the Spin-off has yet to be determined and the Company may or may not proceed with the possible Spin-off.

PROSPECTS

The Group is optimistic with the property markets of Hong Kong, Macau and Mainland China and will launch a series of property sales or presales which are of high quality and cater for the needs and tastes of different buyers.

Looking ahead the Group will continue to capture opportunities for acquiring premier investment properties and replenishing landbank. The Group will further enhance the value of its existing investment properties through continuous redevelopment, renovation works and repackaging programs such as those of Tung Ying Building, vim@silvercord, Laforet and Windsor House. At the same time, the Group has strived to focus on producing mid to high-end properties and identify lucrative business opportunities in Mainland China and Macau, aiming at maximising the shareholders' value.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30th June, 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange are as follows:—

I The Company

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	221,779,697	(1)	Other Interests	
("Mr. Joseph Lau")	998,060,773	(2)	Other Interests	
	<u>1,219,840,470</u>			54.44%

Notes:

- (1) These shares were indirectly owned by a discretionary trust of which Mr. Joseph Lau was the founder and he and certain of his family members were eligible beneficiaries.
- (2) These shares were held by a unit trust of which Mr. Joseph Lau was one of the unit holders. The rest of the units in the unit trust were held by a discretionary trust of which Mr. Joseph Lau was the founder and certain family members of Mr. Joseph Lau were eligible beneficiaries.

II Associated Corporations of the Company

1. Chi Cheung Investment Company, Limited ("Chi Cheung")

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	209,931,186	(a)	Interest in Controlled Corporation	61.96%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS (*cont'd*)

II Associated Corporations of the Company (*cont'd*)

2. G-Prop (Holdings) Limited ("G-Prop")

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	397,858,761	(b)	Interest in Controlled Corporation	50.10%

Notes:

- (a) Mr. Joseph Lau, Luen-hung by virtue of his 54.44% interest in the issued share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 209,931,186 shares of Chi Cheung held directly by Billion Up Limited, a wholly-owned subsidiary of Lucky Years Ltd. which in turn was the wholly-owned subsidiary of the Company.
- (b) Mr. Joseph Lau, Luen-hung, by virtue of his 54.44% interest in the issued share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 397,858,761 shares of G-Prop under the provisions of the SFO. The Company was interested in 397,858,761 shares of G-Prop of which 170,000,000 shares, 113,818,911 shares, 37,162,165 shares and 76,877,685 shares were issued shares respectively held by Million Point Limited ("Million Point"), Paul Y. Holdings Company Limited ("Paul Y."), Great Empire International Ltd. ("Great Empire") and Luckpoint Investment Limited ("Luckpoint").

The Company was deemed to be interested in the 170,000,000 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Chinese Estates, Limited, which owned the entire issued share capital of Cosmos Success Limited which in turn owned the entire issued share capital of Million Point.

The Company was also deemed to be interested in the 113,818,911 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y.

The Company was also deemed to be interested in the 37,162,165 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y., which owned the entire issued share capital of Goldstance Group Limited, which in turn owned the entire issued share capital of Great Empire.

The Company was also deemed to be interested in the 76,877,685 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of China Entertainment and Land Investment Company, Limited, which in turn owned the entire issued share capital of Luckpoint.

All the interests stated above represent long positions. The percentage shown was the number of shares the relevant director of the Company was interested expressed as a percentage of the number of issued shares as at 30th June, 2006.

Saved as disclosed above, none of the other Directors and chief executives of the Company had or were deemed under the SFO to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30th June, 2006.

During the six months ended 30th June, 2006, none of the Directors and chief executive of the Company nor their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any securities of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 30th June, 2006, so far as are known to the Directors, the following parties (other than Director or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Name	Number of Shares (ordinary share)	Capacity	Percentage of Issued Share Capital
GZ Trust Corporation	1,219,840,470 (notes 1 & 2)	Trustee, Beneficiary of a Trust and Interest in Controlled Corporation	54.44%
Global King Ltd.	998,060,773 (note 1)	Trustee	44.54%
Joseph Lau Luen Hung Investments Limited	221,779,697 (note 2)	Beneficial Owner	9.90%
The Children's Investment Fund Management (UK) LLP	177,965,187 (note 3)	Investment Manager	7.94%
The Children's Investment Master Fund	177,965,187 (note 3)	Beneficial Owner	7.94%

Notes:

1. GZ Trust Corporation as trustee of a discretionary trust held units in a unit trust of which Global King Ltd. was the trustee and therefore was regarded as interested in the same parcel of shares held by Global King Ltd. These shares were the same parcel of 998,060,773 shares of the Company referred to in "Other Interests" of Mr. Joseph Lau under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
2. GZ Trust Corporation as trustee of another discretionary trust held the entire issued share capital of Joseph Lau Luen Hung Investments Limited and therefore was regarded as interested in the same parcel of shares held by Joseph Lau Luen Hung Investments Limited. These shares were the same parcel of 221,779,697 shares of the Company referred to in "Other Interests" of Mr. Joseph Lau under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
3. The Children's Investment Fund Management (UK) LLP as investment manager of The Children's Investment Master Fund ("TCI") held the 177,965,187 shares of the Company for the benefit of TCI.

All the interests stated above represent long positions. As at 30th June, 2006, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

AUDIT COMMITTEE REVIEW

The interim results for the Period are unaudited and have not been reviewed by the auditors of the Company. The audit committee of the Company, comprised of Mr. Cheng, Kwee, Mr. Chan, Kwok-wai and Ms. Phillis Loh, Lai-ping, the Independent Non-executive Directors, has reviewed with management the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements for the six months ended 30th June, 2006.

INTERNAL CONTROL

The Board has responsibility for the effectiveness of the internal controls of the Group and delegates such responsibility to the Audit Committee. The Audit Committee reviews the internal control systems covering all major operations on a continuous basis.

During the interim reporting period, the Audit Committee has reviewed the systems of internal control of the Group and has reported to the Board addressing the works and findings. The Board is generally satisfied with the adequacy of the internal control systems of the Group.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 (the "Code Provisions") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except the following two technical deviations:–

1. the Independent Non-executive Directors have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws; and
2. the Directors have not been required by the Company's Bye-laws to retire by rotation at least once every three years. However, in accordance with the Company's Bye-laws, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not greater than one-third, shall retire from office by rotation provided that no Director holding office as chairman, managing director or joint managing director shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire at each annual general meeting.

The Board will ensure the retirement of each Director by rotation at least once every three years in order to comply with the Code Provisions to the Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). All Directors, after specific enquiries by the Company, confirmed they have complied with the required standard set out in the Model Code and the said code of conduct during the six months ended 30th June, 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During January 2006, the Company has in various occasions repurchased a total of 3,360,000 shares on the Stock Exchange for the aggregate price of HK\$26,236,000. The highest and lowest price per share paid for such repurchases were HK\$8.1 and HK\$7.6 respectively. Other than that, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2006.

APPRECIATION

I would like to take this opportunity to thank the shareholders for their continuing support and all the staff for their dedication and hard work.

On behalf of the Board
Thomas Lau, Luen-hung
Chairman

Hong Kong, 9th August, 2006